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RUEHLP/AMEMBASSY LA PAZ 0005  
RUEHMN/AMEMBASSY MONTEVIDEO 0005  
RUEHRG/AMCONSUL RECIFE 0010  
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SENSITIVE  
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COMMERCE FOR ITA/MAC/ADRISCOLL AND LFUSSELL  
TREASURY FOR LTRAN  
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SUBJECT: BRAZILIAN MIDDLE CLASS ON THE RISE

REF: REF: 09 BRASILIA 1098

11. (SBU) SUMMARY: Brazil's middle class, as measured in income terms, has grown rapidly in recent years and now represents approximately half of the population according to government figures and independent analysis. Coinciding with this rise in incomes, more Brazilians are gaining access to property ownership (home, car, and computer), full time employment positions with benefits, and educational opportunities. This achievement follows a history of economic inequality that has traditionally ranked the country among the most unequal in the world. While Brazil continues to have above average economic inequality and will face segments of poverty for years to come, data and experts agree a shift in economic demographics is underway. Lagging structural impediments such as the public education system (septel), however, will likely hamper Brazil's full transition to a middle income country in the near term. END SUMMARY.

#### Methodology

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12. (U) Using GOB data, independent researchers at Fundacao Getulio Vargas (FGV), Brazil's leading business university, have been at the forefront of quantifying recent income, consumption and development trends of Brazil's growing middle class. According to Professor Marcelo Cortes Neri, Director of FGV's Center for Social Policies, Brazil's socioeconomic classes can be divided into four basic segments based on household income. Individuals with monthly household incomes above \$2,670 are considered rich, while individuals between \$620 and \$2,670 are considered middle class. The two classes below this are the poor (income between \$447 and \$620 per month) and impoverished (income below \$447 per month). [Note: Income calculations in dollars are based on an exchange rate of USD 1 equivalent to R\$1.80. End Note.] Using these categories, analysts have identified a dramatic improvement in income distribution among the different classes in Brazil since 2001. The research performed by FGV is based primarily upon data from Brazil's official government statistics office (IBGE).

## Growing Middle Class

13. (SBU) Based on FGV research, the Brazilian middle class has expanded 29 percent over the last seven years to represent 50 percent of the overall population, while the poor and impoverished segments fell to 40 percent of the population. In addition, the rich segment grew from eight percent to ten percent. The amount of movement between the different classes has been especially notable. During the five years between 2003 and 2008, the amount of impoverished persons has decreased by almost 19.5 million, and the amount of people in the poor segment decreased by 1.5 million. [Note: At the end of 2008, Brazil's population was approximately 190 million. End Note.] The following table outlines the change in the relative size of the four population classes:

### Brazilian Socioeconomic Class by Income Level

Class % in 2008	% in 2003
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Rich 10	8
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Middle 50	37
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Poor 24	27
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Impoverished 16	28
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14. (SBU) In fact, Brazil was able to reach its Millennium Development Goal of halving the number of impoverished ten years ahead of the 2015 deadline. By contrast, the number of persons in the middle class grew by almost 26 million, while the rich segment increased by over six million. According to Professor Neri, since 2002, the probability of climbing from the middle class to the upper class has never been higher, and the probability of falling to a lower class has never been less.

## Falling Inequality

15. (SBU) FGV's research on the middle class tracks improvements in official GOB poverty and inequality figures. While rising incomes can at times exacerbate income inequality, income distribution has actually improved in Brazil over the last decade. Since posting a record high level of income inequality at the end of 2001 as measured by the Gini coefficient index, inequality has dropped eight percent to 0.55 in the last seven years. According to FGV research, the average income of impoverished Brazilians increased by 72 percent during this time, while the increase of the rich segment was only 11 percent. Professor Neri told Econoff the primary reasons for the reduction in income inequality are the overall increase in workers' income, social programs such as Bolsa Familia (reftel), and the increase in the minimum wage. His research suggests the reduction in inequality can be precisely attributed as follows - 67 percent to the increase in work incomes since 2001, 17 percent to social programs, and 15 percent to the

increase in the minimum wage.

¶6. (SBU) While lauding the dramatic reduction in poverty in Brazil in recent years, local experts agree that higher than average income inequality will remain for the foreseeable future. Professor Andre Portela of the School of Economics at Fundacao Getulio Vargas told Econoff the dramatic reduction in poverty will slow over time and a core portion of this segment will be unable to advance. Portela said the slowdown will come primarily as a result of the lack of quality education opportunities for the poorest Brazilians. Ricardo Paes de Barros, a Director at Brazil's official government economic statistics office (IPEA), similarly cited the quality of the educational system as an impediment. Barros lamented to Econoff that GOB attempts to raise the qualification standards of its teachers, increase wages paid to teachers, and install computers in schools, have yet to result in a higher quality school system. Portela and Barros agreed it is essential for Brazil to improve its schools to provide further opportunities for poor Brazilians to raise their standard of living.

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New Middle Class Flexing New Wealth...

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¶7. (U) In addition to income levels, analysts mapping Brazil's economic demographics point to numerous other indicators as evidence of Brazil's rising middle class. One employment indicator is the increase in formal sector jobs, which under Brazilian law entitles the employee to a full benefits package, including health insurance for the employee and the employee's family, pension benefits, and job security. According to Brazil's Ministry of Labor and Employment, the number of formal jobs increased 45 percent from 27.2 million to 39.4 million during the past seven years.

¶8. (U) Home ownership has also been on the rise. According to IBGE, the number of homes with access to utility services and a home computer increased by almost 140 percent to 18 million in the last five years. At the same time, urbanization has continued to increase with the proportion of homes in the city rising to 85 percent in 2008 from 81 percent in 1997.

¶9. (U) Luxury items that were previously consumed solely by the wealthy are now increasingly being purchased by lower income Brazilians. For example, research by Brazil's national car association, ANFAVEA, shows the middle class is purchasing new cars at a much faster rate than the rich. In 2008, the middle class purchased 1.17 million new cars, an increase of over 700 percent from the 146,000 new cars purchased in 1990. By contrast, the rich segment bought 1.02 million new cars in 2008, representing an increase of only 164 percent during the same time period. Similarly, internet usage is increasing and broadening rapidly. A recent survey performed by Ibope Nielsen Online found Brazilians across socio-economic lines have more access to the internet and spent the most time on the internet per month of the ten nations surveyed, including the United States.

¶10. (U) Despite the weaknesses of the public education system, the growth of the Brazilian middle class is also coinciding with a gradually more educated population. According to IBGE, an increasing number of Brazilians are graduating both high school and college. The percentage of the population that has completed at least 11 years of school (equivalent to high school) in the last seven years rose from 22 to 32 percent, and the percentage of those

obtaining the equivalent of a college degree increased from five to seven percent.

...And Fueling Demand for Consular Services

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¶11. (SBU) Another indicator of Brazil's increasing affluence is the rise in international travel. According to U.S. Department of Commerce official figures, the number of Brazilians traveling to the U.S. increased 121 percent from 348,965 in 2003 to 769,233 in ¶2008. In terms of new potential travelers, the increase has been even more pronounced with Mission Brazil non-immigrant visa adjudications rising 214 percent--from 159,019 in fiscal year 2004 to 499,041 in fiscal year 2009. In fact, of all the emerging BRIC countries (i.e. Brazil, Russia, India and China), only Brazil showed an increase in demand for U.S. non-immigrant visas during

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fiscal year 2009. As a result of this continued high demand, Consulate General Sao Paulo is now the top non-immigrant visa post worldwide.

COMMENT

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¶12. (SBU) While Brazil continues to suffer from a higher than average degree of economic inequality, analysts agree the divide between rich and poor has decreased in recent years and the middle class has grown in relative terms. Brazil's rapid recovery from the global economic crisis is likely to further spur the country's gradual transition to a broad-based middle class nation. This significant reduction in poverty and rise in middle and upper classes is one of the most significant factors in President Lula's continuing sky-high popularity and a potential factor in bolstering support for his cabinet chief and the likely Workers Party (PT) presidential candidate in 2010, Dilma Rousseff. It is also having an workload impact on our consular visa services, evidenced by Sao Paulo's rise to the top visa adjudicating post in the world, as increasingly affluent Brazilians seek to visit the U.S. Nevertheless, a "two Brazils" phenomenon--first world development levels in large swaths of Southern Brazil and major urban centers contrasted by significant pockets of third world poverty in northeast Brazil and the urban peripheries--is likely to be visible for the foreseeable future. Likewise, until structural constraints such as Brazil's public education system (septel) are addressed, reduction of the most pronounced poverty will remain difficult.

END COMMENT.

¶13. (U) This cable was cleared by Embassy Brasilia, Consulate Recife, and Treasury Sao Paulo.

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